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RUEHME/AMEMBASSY MEXICO CITY 0847
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SUBJECT: DESPITE FINANCIAL DOWNTURN, GLOBA FINANCIAL PLAYERS SEE
POCKETS OF OPPORTUNITY IN BRAZIL

REF: A. Sao Paulo 485; B. Brasilia 1417; C. Sao Paulo 548; D. Rio
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SENSITIVE BUT UCLASIFIED

11. (SBU) Summary: The Country Managers for four major international financial firms - Morgan Stanley, Carlyle rroup, American Insurance Group (AIG), and Rabobank consistently voiced concerns over the near to medium- term impact of the financial crisis and how it would affect their individual sectors in recent meetings with Ambassador Sobel. Even so, all but AIG stated that they remained committed to doing business in Brazil. One financial player even saw a silver lining to the dark clouds on the horizon, stating: "A bit of crisis is good for Brazil - it creates structural improvements for the economy and the society." Financial sector contacts also repeatedly mentioned China's increasing role as an investor in Brazilian markets. End Summary.

AMBASSADOR MEETS WITH FINANCIAL SECTOR REPRESENTATIVES
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12. (SBU) Over a one week period, Ambassador Sobel met with the following financial institution country managers: Eduardo Machado and Fernando Borges, Managing Directors of the Carlyle Group's Brazilian Real Estate and Buyout practices, respectively; Daniel Goldberg, Senior Managing Director and Head of Mergers and Acquisitions for Morgan Stanley Brazil; Erik Peek, General Manager of Rabobank Brazil; and Ana Vigon, Managing Partner for AIG Brazil.

CARLYLE: CONTINUED OPTIMISM FOR PRIVATE EQUITY INVESTMENTS
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13. (SBU) Carlyle specializes in private equity investments and is one of the largest private equity investors in the world. They entered Brazil with a real estate fund in 2007 and are now adding a buyout fund to purchase equity in more mature companies. Borges remarked that he has a series of potential investors visiting Brazil conducting due diligence on the buyout fund, mostly from Switzerland, Sweden, and other European countries. He also noted heavy Asian and American interest and remained optimistic that he would be able to conduct the first closing of the fund (targeting

USD 300 million in capital) around December.

14. (SBU) Carlyle favors Brazilian real estate investments because the projects in Brazil are generally earlier stage and allow the company to co-invest with mid-sized companies and garner larger returns than in many other markets. In Brazil, they are targeting the residential real estate market as well as office and commercial buildings. In February, Carlyle signed a deal with Fibra (a mid-sized real estate developer) to build an office building in Rio de Janeiro and last year they took a USD 70 million stake in Scopel, a residential condominium developer. Machado noted that stimulating domestic Brazilian interest in real estate investments is difficult.

Carlyle has found that the bulk of Brazil's wealthy families have traditionally had significant real estate holdings as a hedge against inflation and Brazil's historical economic turbulence. When they are approached about investing in real estate in Brazil, they often have a significant real estate portfolio and feel that they have enough of their own expertise to invest in the market - they do not see the need to invest in a fund. Carlyle's mission is to add value to the marketplace by giving foreign investors the opportunity to gain exposure to Brazilian real estate (Reftel A).

MORGAN STANLEY: CRISIS WILL PROMOTE BRAZILIAN BANK CONSOLIDATION

15. (SBU) Daniel Goldberg, Head of Mergers and Acquisitions, said the liquidity crunch will likely bring down some small and mid-sized Brazilian banks. At the same time, it is also creating business in the mergers and acquisitions market. Morgan Stanley had received three calls for "emergency" sell-side mandates for mid-sized banks

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in the week prior to the Ambassador's October 22 meeting (Reftel B).

Goldberg added that while the company has yet to feel the true effects of Mitsubishi's recent purchase of a 21 percent stake of Morgan Stanley, the company is looking to expand its global financial dealings with Mitsubishi. In the interim, Goldberg maintained that he has a mandate to expand in the Brazilian marketplace. Morgan Stanley's economic forecasts for Brazilian GDP growth are below consensus Wall Street estimates (around two percent for 2009 vs. 3.5 percent for the consensus). Despite this, Goldberg stated that Morgan sees Brazil as better prepared to weather this crisis than many other Latin American countries and he believed Morgan would reduce its exposure to most of Latin America, including Mexico, but would not reduce in Brazil (Reftels C and D).

16. (SBU) Goldberg also confirmed Morgan Stanley is watching continued Chinese investment in Brazil. He mentioned that Banco Santander is scheduled to bring a "huge" Chinese delegation to Brazil in the beginning of November. The group will likely include representatives from the China's Sovereign Wealth Fund, China Investment Corp (CIC), Industrial and Commercial Bank of China (ICBC), and National Social Security Fund (NSSF).

RABOBANK: AGRICULTURAL CREDIT - TIGHTER AND GETTING TIGHTER

17. (SBU) Rabobank is a co-operative of 161 local banks in the Netherlands plus international subsidiaries and is one of the few AAA rated banks in the world. It was founded as an agricultural lender and maintains its dominance as a food and agri-bank. Country Manager Erik Peek stated that the bank's "sweet spot" is large-scale agri-business. According to Peek, current credit constraints were slow to hit Brazilian farmers and are only now starting to ripple throughout the marketplace. Peek noticed a credit tightening in the corporate market long before he saw it impact the agricultural sector. Peek speculated that, even now, Brazilian farmers - who are used to having the occasional line of credit denied - still do not realize that this credit crunch is different from normal cycles in agricultural lending.

18. (SBU) Peek opined that, among the major players in Brazilian agricultural lending (Banco do Brasil; Banco do Nordeste; Cargill; Archer Daniels Midland; Santander -through its acquisition of ABN Amro; and John Deere - through its equipment finance arm), he expected many of Rabobank's competitors to significantly reduce

exposure to agricultural loans. The double punch of falling commodities prices coupled with a credit crunch will force many lenders to exit the market. He revealed that, in the current environment, when Rabobank reviews credits and makes new lending decisions, it now reviews the transaction as if Rabobank would be the sole lender to the agri-business. The bank assumes that existing lenders will not renew lines of credit and that, if Rabobank decides to maintain the relationship, Rabobank may have to shoulder the entire loan portfolio alone. He did note that while many private lenders may exit the market, the GOB was likely to become a lender of last resort to many agri-businesses to keep the sector from a significant decline.

¶9. (SBU) Peek estimated the total market for agricultural lending in Brazil to be about R\$ 45 billion (approximately USD 23 billion at the current R\$2.1 exchange rate). Of this market, Rabobank has a portfolio of slightly under R\$2 billion (USD 950 million) in crop financing and R\$ 3billion (USD 1.43 billion) in equipment financing. Peek claimed that Rabobank is still asset hungry and he wants to increase the bank's Brazilian exposure.

¶10. (SBU) When asked about the effect of the liquidity crunch on the upcoming planting season, Peek remained optimistic. He explained that even if farmers could not get loans in the short term, they were likely to offset this by reducing or eliminating fertilizer (the most expensive import product). Assuming they have been fertilizing properly in recent years, they will likely still have acceptable crop yields for at least one and possibly two

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harvests. Because of this, he did not see yields dropping in 2009, but agreed that if the situation does not improve by 2010, the crisis is likely to have an impact on crops.

AIG - TIMES ARE HARD AND GETTING HARDER

¶11. (SBU) AIG's Ana Vigon, Managing Partner for Brazil, was the only financial sector player who expected her company to reduce Brazilian exposure. Due to AIG's well-publicized financial woes and its need to raise cash, Vigon stated that AIG is likely to sell off all of its businesses outside of its casualty insurer. While she did not see AIG exiting Brazil entirely, clearly the country is not a top priority for the company given AIG's financial woes.

¶12. (SBU) Comment: The consistent bullishness of large financial players regarding opportunities in Brazil despite the overall economic downturn is encouraging. Post will watch whether Carlyle is successful raising the first tranche of its buyout fund in this economic environment. Whether the GOB actually undertakes the structural reforms that Peek predicted when he noted that "a little crisis is good for Brazil" also remains to be seen. Finally, the common refrain of global companies reducing exposure in other marketplaces but not Brazil raises concerns that interlocutors may be slow to recognize that the repercussions of the global financial crisis may seriously impact their businesses too. End Comment.

¶13. (SBU) This cable has been cleared by the Embassy in Brasilia and Ambassador Sobel and coordinated with the U.S. Treasury Financial Attach and Foreign Agricultural Service in Sao Paulo.

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